



Report

OFFICE OF THE INSPECTOR GENERAL

**ADVISORY REPORT
ON CONTRACT ADMINISTRATION**

Report Number 92-106

June 30, 1992

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The following abbreviations and acronyms are used in this report.

AAA	Army Audit Agency
ACO	Administrative Contracting Officer
AFAA	Air Force Audit Agency
COR	Contracting Officer Representative
DCAA	Defense Contract Audit Agency
DCMC	Defense Contract Management Command
DFARS	Defense Federal Acquisition Regulation Supplement
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
DLAM	Defense Logistics Agency Manual
DMR	Defense Management Report
FAR	Federal Acquisition Regulation
GAO	General Accounting Office
GFM	Government-Furnished Material
GFP	Government-Furnished Property
MOCAS	Mechanization of Contract Administration Services
NAS	Naval Audit Service
PCO	Procurement Contracting Officer
PRIMUS	Primary Medical Care for the Uniformed Services
TCO	Termination Contracting Officer



**INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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June 30, 1992

**MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION
DIRECTOR OF DEFENSE PROCUREMENT
ASSISTANT SECRETARY OF THE NAVY (FINANCIAL
MANAGEMENT)
ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE CONTRACT AUDIT AGENCY
DIRECTOR, DEFENSE LOGISTICS AGENCY
INSPECTOR GENERAL, DEPARTMENT OF THE ARMY**

SUBJECT: Advisory Report on Contract Administration (Report No. 92-106)

This is an advisory report on contract administration provided for your information and use. This report makes no recommendations; therefore, no comments are required. The objective of our review was to identify areas of contract administration that have had problems reported repeatedly over the past 6 years or that have received inadequate management or audit attention. Our review of 157 reports identified issues in quality assurance, Government-furnished property, contract closeout, contract terminations, time-and-materials contracts, and other contract management areas.

We appreciate the cooperation and courtesies extended to the review staff. If you have any questions regarding this advisory report, please contact Mr. Salvatore D. Guli, Program Director, at (703) 692-3025 (DSN 222-3025), or Ms. Linda A. Pierce, Project Manager, at (703) 692-3100 (DSN 222-3100). If you have any questions pertaining to any of the individual reports discussed, please contact the designated point of contact identified in Appendix J. The planned distribution of this report is listed in Appendix L.


Edward R. Jones

Deputy Assistant Inspector General
for Auditing

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

Office of the Inspector General, DoD

REPORT NO. 92-106

June 30, 1992

PROJECT NO. 1CF-6003

ADVISORY REPORT ON CONTRACT ADMINISTRATION

EXECUTIVE SUMMARY

Purpose. This project was performed to summarize areas of contract administration that have been the subject of reviews conducted over the past 6 years. The review identified systemic issue areas from audits, inspections, studies, and student papers published since 1986 by the Department of Defense audit agencies, the Military Departments, the Defense Logistics Agency (DLA), and the General Accounting Office (GAO). An additional purpose was to identify areas that may require additional oversight and provide a basis for future audit and inspection plans.

Background. Contract administration is concerned with ensuring that contracts are performed in accordance with the terms of the contract. The Federal Acquisition Regulation (FAR), Subchapter G, "Contract Management," contains policy for 10 separate areas of contract management. Part 42, "Contract Administration," defines 83 different contract administration functions. Prior to 1990, DLA and the Military Departments shared responsibility for the contract administration services, required by DoD.

In 1990, DoD reorganized the contract administration organization structure and created the Defense Contract Management Command (DCMC). As part of DLA, DCMC is now responsible for contract administration services for virtually all of the DoD. The Military Department plant representative offices were consolidated into DCMC, and the former DLA organization was remolded into five districts nationwide. During the first quarter of FY 1991, DCMC was administering approximately 485,000 contracts valued at about \$750 billion. January 1991 saw the establishment of the Defense Finance and Accounting Service (DFAS). The creation of DFAS consolidated financial services DoD-wide, and separated the contract payment function from the contract administration mission of DCMC.

Since 1986, nearly 1,300 reviews have been performed relating to some aspect of contract administration services. Our review of 157 reports identified repeated problems in areas that included quality assurance and related areas, Government-furnished property, contract closeout, contract terminations, and

time-and-materials contracts. Other issue areas we identified included contract modifications, preaward surveys, and pensions. The status of follow-up actions for each area is discussed in Part II of this report.

Results. Although policy changes were recommended, our analysis indicated that the primary contract administration problems involved noncompliance with existing policies. Improvements were noted in the areas of quality assurance and Government-furnished property, but additional progress is needed. The Report of the Defense Management Review resulted in decisions that should have a positive effect on the economy and efficiency of contract administration operations in DoD.

In the quality assurance area, reports showed that Government and contractor quality assurance programs were ineffective in preventing the manufacture and acceptance of nonconforming products. In addition, systems were inadequate to track contractor quality history.

Reviews of Government-furnished property reported that accountability and control of Government property were not adequate to account for Government property in the possession of contractors, and excess property was not properly identified and disposed of.

Reviews of the contract closeout process found that contracts were not closed timely. In addition, excess unliquidated obligations were not deobligated, and contractors received overpayments that were not recovered in a timely manner. Concerning contract terminations, reports showed that contracts for excess on-order assets were not properly recommended for termination. Furthermore, terminations for convenience were not adequately administered. Other reviews showed that time-and-materials contracts were not effectively monitored to ensure contractor compliance with contract terms and that the use of time-and-materials contracts was not properly justified. Other reports cited systemic problems with contract modifications, preaward surveys and the monitoring of pension plan assets.

Additional Oversight. As of this report, the IG, DoD, the Military Department audit agencies, and the General Accounting Office, had ongoing or planned audit projects in the contract administration area. Based on our research, additional audit coverage would be appropriate in the areas of cost monitoring programs, international contract administration, and negotiations by administrative contracting officers (ACOs).

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This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Information Officer, Audit Planning and Technical Support Directorate, 703) 614- 6303.

PART I : INTRODUCTION

BACKGROUND

The DoD procurement budget for FY 1992 is estimated at \$63.4 billion. Contract administration is concerned with ensuring that contracts are performed in accordance with the terms of the contract. The Government contract administrator is responsible for ensuring that contracts are performed in a cost-effective manner and that quality goods and services are delivered on time. The Federal Acquisition Regulation (FAR), Subchapter G, "Contract Management," provides specific guidance on the following areas:

- Contract Administration
- Contract Modifications
- Subcontracting Policies and Procedures
- Government Property
- Quality Assurance
- Transportation
- Value Engineering
- Termination of Contracts
- Extraordinary Contractual Actions
- Use of Government Sources by Contractors

FAR Subpart 42.3, "Contract Administration Office Functions," defines about 83 contract administration functions. The Defense Logistics Agency Manual (DLAM) 8105.1, "Contract Administration Manual for Contract Administration Services," provides guidance to aid contract administrators to:

- ensure that the required quality materials and services are provided to customers on time and at a reasonable cost;
- perform such additional authorized contract administration tasks as may be requested by contracting activities and program managers; and
- achieve uniformity in dealing with industry in the administration of Government contracts.

The Defense Contract Management Command (DCMC) and the Defense Finance and Accounting Service (DFAS) use an automated system, Mechanization of Contract Administration Services (MOCAS), to maintain control over the administration and payment of contracts. The system is designed to allow contract administrators and finance

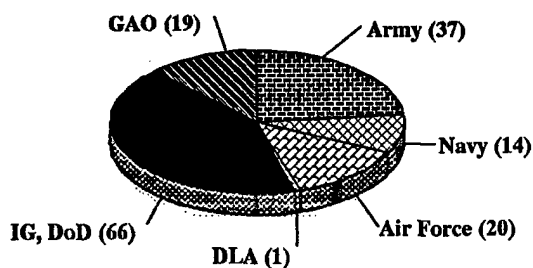
personnel to enter various types of basic contract data and actions into the data base for every contract administered. During the first quarter of FY 1991, DCMC was administering approximately 485,000 contracts valued at about \$750 billion.

OBJECTIVE AND SCOPE

The objective of this research project was to prepare an advisory report summarizing the results of audits and reviews completed on contract administration functions from 1986 to 1992. We reviewed reports on subjects including contract payments, disputes, terminations, quality assurance, production support and surveillance, nonconforming products, property, and subcontracting. We also attempted to present Defense Management Report (DMR) decisions that affected DoD contract administration functions and organizations. We did not evaluate the adequacy of any internal control procedures within DoD activities, or the reliability of computer processed data. We cannot comment on the status of the functional areas addressed in this report or on any improvements in the performance of these functions.

We reviewed audits and inspections performed by the Office of the Inspector General, DoD, General Accounting Office (GAO), Army Audit Agency (AAA), Naval Audit Service (NAS), and Air Force Audit Agency (AFAA). We also examined studies by Army, Navy, Air Force, and Defense Logistics Agency organizations. The 157 reports and studies we reviewed are presented in Appendixes B through G, according to the functional areas addressed in this advisory report.

**NUMBER OF REPORTS REVIEWED
1986-1992**



We analyzed the reports to identify systemic issues and determine trends in contract administration. In addition, we interviewed officials in the Office of the Secretary of Defense; the Military Departments; Defense Logistics Agency (DLA); DCMC; and DFAS who were involved in policy making, contract administration operations, and the efforts to consolidate the contract administration mission in DoD.

We conducted this review from March 1991 to May 1992. A list of activities visited or contacted during the review is shown in Appendix K in Part III of this report.

PART II : RESULTS OF THE REVIEW

A. OVERVIEW

The Defense Management Report was sent to the President by the Secretary of Defense in July 1989 as a plan to improve the Defense procurement process and the management of the Pentagon. One of the significant initiatives to emerge from the DMR was the consolidation of contract administration services under DCMC, a newly created subordinate command of DLA. Consolidation of the contract administration function prompted the Office of the Inspector General, DoD, to examine the contract administration area and evaluate audits and reviews from the past 5 years to identify previously reported contract administration problems. This report is intended to be advisory only, and to help the DCMC and other organizations serving DoD to be more effective.

In preparation for this research project, we identified about 1,300 titles, published since 1986, that referenced contract administration in DoD. These included student papers, and other research papers, as well as audit, inspection, and review reports. We selected 157 reports for review. Those reports indicated that the issues in contract administration generally involved noncompliance with policies already established, rather than a lack of policy. Multiple reports issued in the areas of quality assurance, Government-furnished property, contract closeout, contract terminations, time-and-materials contracts, and other contract management areas such as contract modifications, preaward surveys, and pensions indicated widespread problems during the time frames of the respective audits. We summarized these areas in this advisory report.

ADDITIONAL OVERSIGHT

Overall, prior audit coverage was given to all 83 contract administration areas addressed in FAR. The degree and recency of coverage vary widely. Areas such as quality assurance have received extensive oversight attention in the past. Quality assurance is the focus of management improvement plans and is in current and future audit plans. Other areas have not received recent audit coverage by the Military Department audit agencies; the IG, DoD; or the GAO. The following areas may require additional audit attention.

Award Fees. A 1987 IG, DoD, audit report was the most recent audit to evaluate the appropriateness of award fees for the acquisition of Government-owned contractor-operated facilities. The audit results led to a change to the FAR in December 1990. The Air Force Audit Agency plans to conduct an audit of "Incentive and Award Fees on Major System Acquisition Contracts" in FY 1992.

Cost Monitoring Programs. A 1987 IG, DoD, report on "Contract Administration Evaluations and Controls of Contractor Overhead Through Cost Monitoring Program Reviews," stated that cost monitoring programs were not properly planned, executed, or followed up. This area will be considered for future IG, DoD, audit coverage.

International Contract Administration. DLA/DCMC received full responsibility for the international contract administration mission through the reorganization in 1990. The IG, DoD, has an ongoing audit of contracting offices in Europe for FY1992 and plans to conduct additional reviews of international operations in the future.

Negotiation Responsibilities. Administrative contracting officers (ACOs) have negotiation responsibilities according to the FAR. Audit coverage of this function has been limited primarily to the negotiation processes carried out by procurement offices. This area will be considered for future IG, DoD, audit coverage.

B. QUALITY ASSURANCE AND RELATED AREAS

SUMMARY

Government quality assurance programs have not prevented DoD from accepting nonconforming products and services. Reports consistently cited the need for better Government surveillance of contractors to ensure the quality and conformance to contract specifications of products and services received. Insufficient Government surveillance of contractors and deficiencies in Government systems for reporting poor quality products were addressed as causes for problems in the quality area. The "DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts" (Action Plan) was issued in 1990 as a major initiative to improve the quality of products accepted by DoD. The Military Departments and DLA have all developed implementation plans in response to the DoD Action Plan.

BACKGROUND

The contracting officer's representative (COR) is responsible for quality assurance over contractor activities. The job of quality does not stop with day-to-day contractor activities, but continues on to the final acceptance of goods and services that conform to contract specifications. This responsibility rests with DLA and DCMC. FAR Part 46, "Quality Assurance," sets forth policies and procedures to ensure that products and services conform to specified contract requirements.

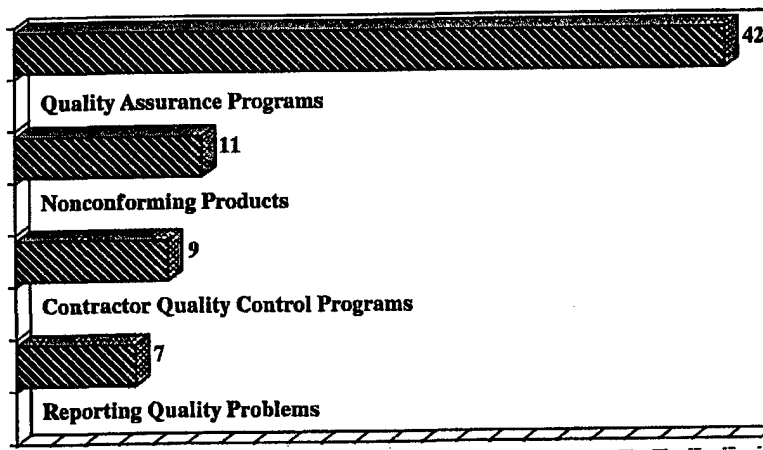
REFORM EFFORTS

The "DoD Action Plan for Continuously Improving the Quality of Spare and Repair Parts" provided a comprehensive plan for improving the quality of parts entering the DoD inventory. The plan identified 26 objectives to improve the quality of spare and repair parts. Corrective and preventive actions described in the plan encompass each phase of the overall acquisition process, including the pre-contract, contract, contract administration, depot, and feedback intelligence phases. Action Plan objectives embrace broad total quality management improvements by DoD activities and suppliers. The plan gives special attention to:

- Improving the quality of DoD inventory by preventing quality defects before production instead of detecting quality defects after delivery;
- Identifying and controlling the acquisition and production processes to ensure the availability of quality parts necessary for safe, reliable, and effective weapons systems; and
- Using quality factors in the source selection process to ease identification of contractors who have provided poor quality products or services to the Government.

DISCUSSION

We reviewed 45 reports related to quality assurance. Reports addressed Government quality assurance programs, nonconforming products, contractor quality control programs, and reporting quality problems.

**FREQUENCY OF PROBLEMS IN
THE 45 REPORTS ON QUALITY ASSURANCE****Quality Assurance Programs**

Government quality assurance programs were cited as ineffective for ensuring that products and services provided by contractors met contractual requirements. Government surveillance efforts are important to effectively monitor contractor performance and to ensure the Government is receiving what it paid for.

In most cases, Government surveillance plans and programs either did not exist or were not used effectively to monitor contractor operations. There were no surveillance procedures or plans developed or implemented for evaluating contractor performance cited in AFAA Report No. 7165113, "Administration of Training Contracts," February 10, 1988. The report stated that documentation did not support payments of \$3.4 million to contractors for training services. Payments to contractors were certified without assurance that the training was actually conducted.

Inadequate Government surveillance was cited in GAO Report No. GAO/NSIAD-87-33, "Quality Assurance: Efforts to Strengthen DoD's Program," November 3, 1986. The Government Plant Representative Office allowed the contractor to perform inspections when Government quality assurance personnel were not available.

Other deficiencies included a lack of management oversight, inadequate training of quality assurance personnel, failure to penalize contractors for breaches of contract terms, and failure to discourage contractors from

providing inadequate or potentially dangerous goods and services. IG, DoD, Report No. 90-012, "Primary Care for Uniformed Services and Navy Cares Programs," December 6, 1989, determined that the Primary Medical Care for the Uniformed Services (PRIMUS) quality assurance program did not ensure that unacceptable health care services were identified and corrected in a timely manner, or that the Government received the level of service required by the contract. The weaknesses in the program were due to inadequate contract provisions, a lack of guidance and management oversight, inadequate training, and inadequate penalty terms for contractor nonperformance.

Contractor quality control programs were not always evaluated, and inadequate quality control programs were not always rejected. For example, AAA Report No. EC 88-709, "Acquisition and Contract Administration, Huntington District, U.S. Army Corps of Engineers, Huntington, WV," September 30, 1988, stated that Government quality assurance programs did not require the contractor to implement a quality control program.

Nonconforming Products

Nonconformance to contractual specifications has been a long-standing cause of poor quality products and services. Nonconforming products and services are a result of contractors not satisfactorily controlling quality, and Government quality assurance programs failing to identify quality control problems.

Reports related to nonconforming products focused on improving Government quality assurance programs to ensure better quality of products and services received by the Government, specifically better conformance to contractual specifications. Also, definitions of nonconformances in DoD publications were not consistent.

IG, DoD, Report No. 89-065, "Nonconforming Products in the Defense Supply System at Warner Robins Air Logistics Center," April 10, 1989, determined that the Air Force did not receive quality parts because the parts did not meet contract specifications. The report projected that 94.1 percent of the \$110.4 million of parts on hand in Federal Supply Class 1005 (guns through 30 millimeters) had major and minor nonconformances. Also, the report estimated that spare parts valued at \$12.9 million in Federal Supply Class 1005 were not usable. Nonconformances occurred because contractors did not implement

required quality control procedures, and the Government quality assurance representatives did not identify and reject the contractor's inadequate quality control practices. A standard definition for the types of nonconformances did not exist. Also, mechanisms were needed to disseminate information on contractors' prior quality performance to procurement activities.

IG, DoD, Report No. 90-113, "Nonconforming Products Procured by the Defense Industrial Supply Center," September 27, 1990, estimated that 62 percent of 1.28 billion parts procured in 1986 and 1987 by the Defense Industrial Supply Center, valued at \$624.7 million, had major or minor nonconformances. Of the \$624.7 million of nonconforming parts, \$171.6 million had major nonconformances. The audit showed that DoD accepted these parts because it did not have an effective policy for testing spare parts before acceptance to ensure conformance to specifications. Also, internal controls were materially inadequate to identify contractors with a history of producing poor quality products and to identify nonconforming products prior to acceptance.

Contractor Quality Control Programs

Contractor quality control programs were not effective in identifying poor quality goods and services, and contractors were not implementing quality control programs according to contractual specifications. The poor quality of the products and services procured reflected the poor performance of the contractors who supplied the products or services. Previously discussed IG, DoD, Report Nos. 89-065 and 90-113 indicated the volume of nonconforming products resulting from inadequate contractor quality control programs.

IG, DoD, Report No. 90-012, determined that the PRIMUS contractors were not implementing the quality assurance program cited in the contract. The contractors' quality assurance programs addressed problems after they occurred, instead of continually monitoring the quality of care provided to prevent problems from occurring. The need for effective quality control by the contractor was critical since unacceptable health care increased the risk of harm to recipients.

Reporting Quality Problems

Poor quality products and services were not properly reported in DoD. Problems related to reporting nonconforming products specifically focused on deficiencies in Government systems. For example, GAO Report No. NSIAD-89-28FS, "Procurement: Department of Defense Quality Assurance Efforts," November 2, 1988, stated there was no DoD-wide data system to track a contractor's quality history or to help exchange information between DoD procurement activities. Studies have shown that DoD quality deficiency reporting systems were not always a reliable means of identifying nonconforming goods and problem contractors. The Military Departments and DLA were unable to agree on how data in a DoD-wide system should be compiled and maintained. The Military Departments and DLA each had its own separate contractor history files. As a result, too many contracts were awarded without adequate quality considerations.

SUMMARY OF RECOMMENDATIONS

The majority of recommendations emphasized the need for improved adherence to guidance by activities. Specifically, the reports recommended improving Government surveillance over contractors to ensure that the Government received goods and services conforming to contract specifications. Recommendations also called for more product testing and evaluation prior to delivery. In addition, the reports recommended improving existing quality assurance policies and guidance. For example, the definition in DoD publications of a nonconformance needed to be standardized to facilitate consistent identification and reporting of nonconforming products. The definition of nonconformances has since been revised and is included in the 1991 Defense Federal Acquisition Regulation Supplement (DFARS), Part 246.407.

CONCLUSION

Overall, the DoD Quality Assurance Program needed improvement. Improvements were needed in the selection, training, and management oversight of quality assurance personnel; improved surveillance plans and programs; and increased product testing to prevent poor quality

products from entering the DoD inventory. Also, improvements were needed to adequately identify contractors who provide poor quality products and services to the DoD community.

Two primary reasons for poor quality were that contractors did not conform to contract specifications and the Government did not provide adequate surveillance. Poor quality products reflected poor quality controls. Quality must be built in by contractors who control quality during the manufacturing process or as part of the services provided.

C. GOVERNMENT-FURNISHED PROPERTY

SUMMARY

Property administration problems existed in the areas of accountability and control of Government-furnished property (GFP), disposal of excess property, and management support for the property administration mission. The reports showed prior audit coverage depicting the same problems for the previous 5 years. A 1988 GAO report cited recurring problems with GFP for the past 20 years. In addition, reports indicated problems with rental rates and with fees awarded for acquisition of facilities.

BACKGROUND

Contractors are generally required to furnish all property needed to perform contracts. However, the Government can provide property to contractors when it is in the best interest of the agency. The objective of property administration is to control GFP through contractor reporting and Government oversight.

FAR Part 45, "Government Property," provides overall policies and procedures for providing Government property to contractors; contractor's use and management of Government property; rental of Government property used for non-Government purposes; and reporting, distributing, and disposing of Government property held by contractors. FAR Subsection 52.245-9, "Use and Charges," is the clause included in contracts that specifies the procedures and rates to be used to calculate rent.

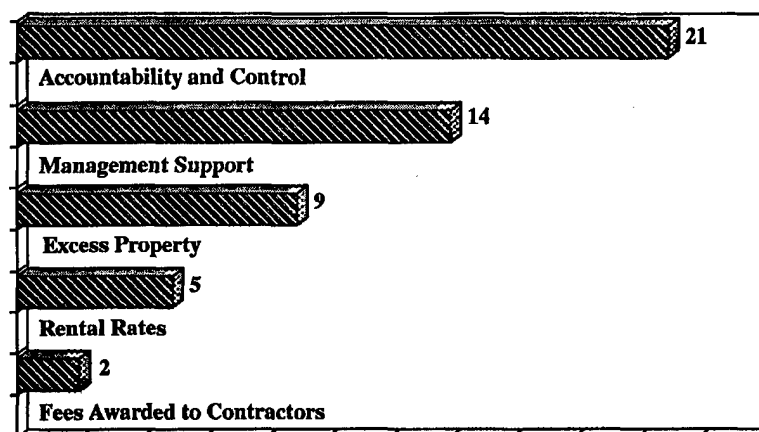
REFORM EFFORTS

The Under Secretary of Defense for Acquisition issued property initiatives in 1986 addressing the need to reduce the amount of Government-furnished property in the possession of defense contractors. In addition, the initiatives indicated the need to enforce DoD policy for the acquisition, management, control, and disposal of Government-owned property. Reports indicated that significant improvements over control of GFP occurred as a result of the initiatives, but more were needed. A recent IG, DoD, audit reviewed the implementation of the 1986 initiatives. The results of that review will be reported separately.

DISCUSSION

We reviewed 28 reports that addressed Government-furnished property. Significant issues identified by these reports were accountability and control over GFP, management support for property administration, excess property, rental rates, and fees awarded to contractors.

**FREQUENCY OF PROBLEMS IN THE 28 REPORTS
ON GOVERNMENT-FURNISHED PROPERTY**



Accountability and Control

The lack of accountability and control over GFP was caused by inadequate reporting, record keeping, and accounting systems of contractors. According to GAO Report No. NSIAD-88-151, "DoD's Management of the Property It Furnishes to Contractors," May 26, 1988, the exact amount of DoD property in the hands of contractors was unknown. The property report maintained by DLA showed that Government property reported by contractors at acquisition cost increased from \$45.2 billion in 1986 to \$72.2 billion in 1990. According to DLA, however, the increase did not necessarily represent a real increase in the amount of Government property in the possession of contractors because improved reporting processes resulted in a more complete inventory.

Accountability and control problems also resulted from inadequate Government oversight. Property administrators did not follow established property administration and reporting requirements. As a result, the Government could not hold contractors liable for lost or damaged property. Property administrators also did not perform periodic surveys to determine contractor compliance with property control systems. For example, IG, DoD, Report No. 87-124, "Audit Report on Government-Furnished Property Provided by the National Security Agency," April 9, 1987, projected that property valued at \$39.5 million was not included in National Security Agency data bases. The report identified property valued at \$121.5 million that was provided to contractors without justification or a determination that it was in the Agency's best interest to provide the property to contractors. Also, property valued at \$14.6 million was provided to contractors without contract authorization.

Three GAO reports cited the lack of progress implementing the management control and reporting systems required by DoD to control Government-furnished material (GFM). Without those systems, DoD could not ensure that contractors requisitioned, received, or used only the necessary amounts of GFM provided for in their contracts.

Management attention was given to the areas of accountability and control of Government property. DoD established the Industrial Property Management System in August 1986 to provide managers with visibility over Government-owned assets. The Navy used the Contractor Aviation Material Management System, which facilitated management

control over aviation GFM. The Army tasked the Logistics Evaluation Agency to study the feasibility of implementing management controls at the retail level.

Management Support

The Air Force Thesis, "An Independent Analysis of the Various Property Administration Techniques Employed Throughout the Department of Defense Contract Administration Function," September 1987, examined agencies within DLA and the Military Departments responsible for property administration. The thesis concluded that management did not support the property administration mission. The thesis also cited, as problems, high office turnover and difficulty in finding qualified personnel that created a workforce with low experience and increased the need for training. Audit reports supported the Air Force thesis by citing examples of inadequate training, poor communication, extensive work loads, lack of ACO support, and shortages of property administrators.

Excess Property

Plant clearance is the process of reporting, screening, redistributing, and disposing of property when contract performance is complete or the contractor no longer needs the property. The Government did not adequately identify, reutilize, or dispose of excess Government-furnished property. IG, DoD, Report No. 90-043, "Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors," March 2, 1990, estimated that property valued at \$143 million was not reviewed for disposal. Of the property not reviewed, \$17.3 million could have been recovered and reutilized. As a result of Naval Audit Service efforts in the property area, the Supervisor of Shipbuilding developed an automated turn-in program and recovered property valued at over \$2 million.

Rental Rates

When contractors used Government property for commercial purposes, the contractors should have paid rent to the Government based on the "Use and Charges" clause in the FAR. Audits of rental of Government property not only identified rents that were not collected, but also pointed out where rental policies needed to be improved or changed. IG, DoD Report No. 89-087, "Contractor Rental of Government Real

Property and Payments of Nonrecurring Costs," June 30, 1989, indicated that FAR policy was inconsistent with sound commercial practice, contrary to public law, and vague on how to calculate rent on property used for Independent Research & Development. The report projected that rents received on 38 contracts were \$8.1 million below commercial rates.

Additionally, IG, DoD, Report No. 91-035, "Contractor Rental of DoD Plant Equipment at Textron Lycoming, Stratford Division, A Subsidiary of Textron Incorporated," January 28, 1991, stated that DoD did not receive appropriate rents, allowed improper credits against rent, and improperly identified and excluded equipment from rent calculations. As a result, DoD did not collect about \$1.2 million for plant equipment rent for 1988. The audit estimated that DoD would not receive \$6.1 million in rent for 1990-95 if the improper rental credits were allowed to continue.

Fees Awarded to Contractors

Government-owned facilities were generally provided under a facilities contract on a no-fee basis. The regulations allowed facilities to be provided to a contractor under other than a facilities contract, but did not address fees for facilities acquired under those contracts. Various interpretations of the guidance allowed contractors at Government-owned contractor-operated plants to receive inappropriate fees for the acquisition of facilities acquired on other than facilities contracts. For example, IG, DoD, Report No. 87-140, "Audit of Fees Charged for the Acquisition of Government-Owned Contractor-Operated Facilities," May 6, 1987, projected that the Government paid inappropriate fees of \$7.2 million for FYs 1983 through 1985.

Fees for other plant equipment were not allowed when used merely as an aid to contractors in performing Government work. IG, DoD, Report No. 88-143, "Administration of Other Plant Equipment by Washington, DC Area Contractors," May 6, 1988, projected that the Government paid \$1.1 million of unallowable fees for acquiring and using other plant equipment.

SUMMARY OF RECOMMENDATIONS

The recommendations generally called for compliance with policy regarding property accountability, control, reporting, and usage. Recommendations specifically addressed maintaining accurate property records, conducting adequate annual surveys, controlling contractor access to DoD inventories, monitoring and tracking property usage, reviewing contractor payments, and enforcing the payment of interest on late rent payments.

In addition to compliance recommendations, reports on property rental recommended revising the FAR to make rental rates more consistent with sound commercial practices. As a result, a revised "Use and Charges" clause was issued for comment, and a case was submitted to the Defense Acquisition Regulations Council for consideration.

Reports addressing fees for acquisition of facilities generally recommended revising the FAR to disallow profit or fee for the acquisition of facilities, and prohibit contractor-acquired other plant equipment unless expressly approved in advance. These revisions were published in Federal Acquisition Circulars 90-3 and 84-51.

CONCLUSION

Adequate property administration is critical to ensure that Government-furnished property is not subject to fraud, waste, or misuse. Reports concluded that accountability and control, management support, reutilization and disposition, rental rates, and award fees are areas still in need of improvement. Necessary improvements include compliance with established policy, implementation of management control and reporting systems, appointment of knowledgeable property administrators, timeliness of plant clearance actions, and revision of rental policy. Additional audit coverage is needed to evaluate the effectiveness of new award fee policy, as well as proposed rental policy changes.

D. CONTRACT CLOSEOUT

SUMMARY

Untimely contract closeout was identified as a frequent problem. One report showed that contract closeout exceeded FAR time frames by as much as 9 years. Closing of contracts received low priority from management, and contracting officers were not held accountable for the timeliness of the closeout process. In addition, reports identified contract overpayments, and excess unliquidated obligations.

BACKGROUND

The office administering a contract is responsible for contract closeout. The contracting officer determines when contracts are physically complete and whether all administrative actions have been taken before initiating closeout actions. FAR Subsection 4.804-1, "Closeout by the Office Administering the Contract," prescribes time frames for closing physically complete contracts. Contract closeout time frames are 6 months to close firm-fixed price contracts, 36 months to close contracts requiring the settlement of overhead rates, and 20 months for all other types of contracts.

REFORM EFFORTS

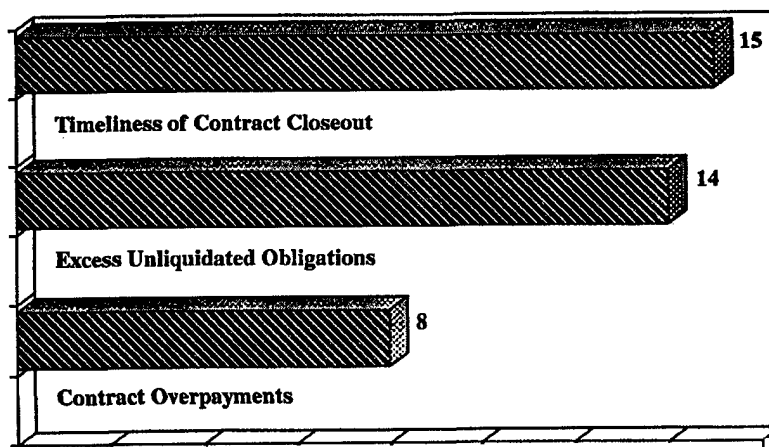
A new provision in the FY 1991 Appropriations Act impacts contract closeout by changing the way expired funds and M accounts are handled. The new rules place specific time limits on the availability of appropriated monies. After the time limit expires, all balances are canceled and obligations outstanding must be charged to a current

appropriation. There will no longer be any M accounts. These changes make timely use of DoD appropriations an essential part of contract management, and should aid the timely closeout of contracts.

DISCUSSION

We reviewed 17 reports covering the contract closeout process. Significant problem areas identified in these reports were untimely closeout, excess unliquidated obligations, and overpayments to contractors.

**FREQUENCY OF PROBLEMS IN THE 17 REPORTS
ON CONTRACT CLOSEOUT**



Timeliness of Contract Closeout

Fifteen reports identified untimely contract closeout as a significant problem. For example, NAS Report No. 056-C-88, "Selected Aspects of Contract Administration at the Naval Sea Command," February 18, 1988, stated that contract closeout exceeded FAR time frames by as much as 9 years. Other reports by Military Departments and IG, DoD, cited the

low priority given to contract closeout. Emphasis in contract administration was on administering active contracts, not on closing completed contracts. The lack of management emphasis was also highlighted by the fact that contracting officers were not held accountable for timely contract closeout in their performance plans.

Contract files lacked the required documentation to make closeout determinations, resulting in untimely contract closeout. IG, DoD, Report No. 92-076, "Report on the Administration of the Contract Closeout Process Within DoD," April 15, 1992, identified missing and incomplete payment files as a material internal control weakness. This problem complicated efforts to maintain an accurate data base in MOCAS, and hindered visibility over the status of contracts.

IG, DoD, Report No. 90-043, "Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors," March 2, 1990, identified outstanding Government-owned property for contracts that were complete but not closed. Although the report did not address contract closeout as an issue, the report indicated that identification and disposition of excess property were not timely. Contract closeout actions required by the FAR include the recovery or transfer of GFP to another contractor. Consequently, inadequate disposal of excess property can contribute to untimely closeout.

Other contract closeout actions required by the FAR include reconciliation of progress payments with deliveries; recovery of excess payments; receipt, approval, and payment of final invoices; settlement of contractor claims and payment of amounts due; and deobligation of excess unliquidated obligations. AAA Report No. EU 91-301, "Contract Closeout Procedures, U.S. Army Contracting Command, Europe," February 20, 1991, stated that contracts were closed before all contract closeout actions were completed. Inadequate closeout occurred because contracting officers did not use contract closeout checklists to ensure that all actions were completed before closing contracts.

Other factors delaying contract closeout included inadequate records of contracts due for closeout, contractor delays in submitting final invoices and final overhead rate proposals, and the backlog of Defense Contract Audit Agency (DCAA) overhead audits. As a means to improve the timeliness of final overhead settlements, DCAA has coordinated with DLA and increased the use of multiyear audits. Although DCAA did not accomplish 100 percent of its FY 1990 goal, the actual number of

audits completed was more than double the number performed in FY 1988. DCAA completed 2,141 audits in FY 1988 and 4,452 in FY 1990.

Excess Unliquidated Obligations

The reports showed a total of \$96.8 million of excess unliquidated funds on completed contracts. IG, DoD, Report No. 91-064, "Administration of the Contract Closeout Process at the Defense Contract Management District Mid Atlantic," March 20, 1991, stated that fund reviews to identify excess unliquidated funds were not performed, DLAM 8105.1 did not contain guidance on fund reviews, and ACOs received no training on how to perform the reviews. AFAA Report No. 7066411, "Closeout of Physically Completed Contracts with Unliquidated Obligations," July 14, 1988, stated that when fund reviews were made, contracting officers did not coordinate with paying offices to reconcile fund balance differences.

Contract Overpayments

Overpayments, identified in six reports, totaling \$4.6 million, were not collected in a timely manner. In addition, one report, "Subject Matter Assessment of Contract Closeout" by the U.S. Army Materiel Command, July 1987, identified \$40 million in overdisbursements at Army commodity commands. Overpayments cost the Government not only the use of the money for the time the overpayments were in the possession of contractors, but also the associated cost of that money -- interest. Three reports identified a total of \$310,800 in interest costs incurred because of delays in recovering overpayments.

The Prompt Payment Act, as amended (United States Code, title 31, section 39), requires Executive departments and agencies to make payments on time, pay interest penalties when payments are late, and take discounts only when payments are made on or before the discount date. DLA management has emphasized timely contract payments to avoid paying interest under the Prompt Payment Act. Efforts to pay all invoices on time, however, may have resulted in short cuts that allowed duplicate payments to be made to some contractors. The Prompt Payment Act does not allow the circumvention of internal controls in order to make timely payments. The IG, DoD, Report No. 92-076, reported that during FYs 1990 and 1991, two DCMC Districts paid interest for late payments totaling \$3.8 and \$2 million.

SUMMARY OF RECOMMENDATIONS

The reports made recommendations to address the need for compliance with existing policies. Recommendations also addressed the need for training contracting officers and finance office personnel in the areas of fund reviews, the contract closeout reporting system, and data interpretation and input to the MOCAS system. A policy recommendation was made to issue an Air Force FAR Supplement to FAR Subsection 4.804-5 to require procurement contracting officers (PCOs) to initiate fund reviews within 30 days after physical completion of a contract and to reconcile any potential funds balance differences with the accounting and finance office. Another policy recommendation was made to propose a revision to DFARS establishing a DoD-wide requirement for ACOs to complete fund reviews within 30 days after physical completion of a contract, and to notify the PCO of any excess funds. In addition, a recommendation was made to revise Air Force FAR Supplement 4.804-5 to require PCOs to ensure that the ACO, PCO, and the accounting and finance office coordinate contract fund reviews and reconcile differences in funds balances.

CONCLUSION

Untimely contract closeout has been a problem throughout DoD. Noncompliance with existing policies, often due to low priority and a lack of accountability for the closeout process, was addressed as the primary issue in the reports reviewed. We expect that the timeliness of contract closeout will improve as a result of the new rules for funds availability. Actions concerning fund reviews and coordination between ACOs, PCOs, and accounting and finance offices should also improve the timeliness of contract closeout.

E. CONTRACT TERMINATIONS

SUMMARY

Contract terminations have received frequent audit coverage since 1987. Reports stated that contracts for excess on-order assets were not terminated, uneconomical termination decisions were made by item managers and contracting officers, excess on-order assets were not used as GFM, excess on-order assets were not adequately validated by item managers before making termination decisions, and the administration of contracts terminated for convenience was inadequate. Internal control weaknesses were also identified.

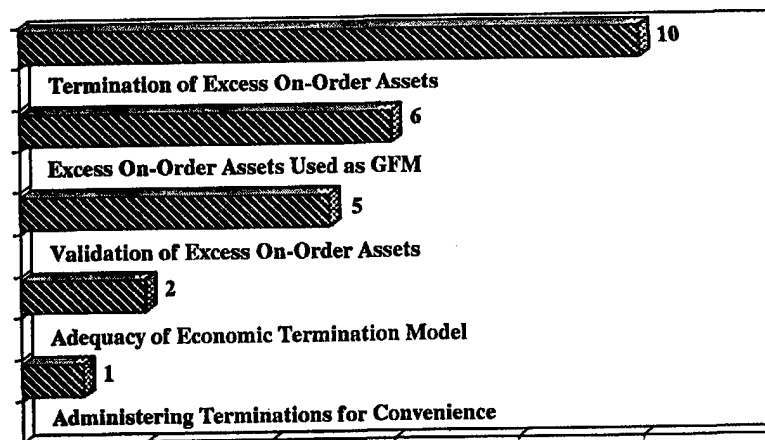
BACKGROUND

FAR Section 49.101, "Authorities and Responsibilities," requires contracting officers to terminate contracts for unneeded assets when it is in the Government's best interest. The termination decision process for managed supply items begins with the item managers at the supply system inventory control points. The item managers validate system generated requirements to determine whether on-order quantities are excess and initiate requests to terminate the contract for excess quantities. The procurement office is responsible for executing the termination request, if it is determined to be the most economical course of action. DLA has overall responsibility for the administration and settlement of nearly all contracts terminated for convenience. Termination contracting officers (TCOs) are responsible for administering and settling terminated contracts.

DISCUSSION

We reviewed 14 reports on contract terminations. The reports stated that contracts for excess on-order assets were not terminated, uneconomical termination decisions were made, excess on-order assets were not used as GFM, and inadequate validations of excess on-order assets were made. In addition, the Air Force economic termination model used inaccurate costs for determining when to terminate contracts for excess on-order assets. IG, DoD, Report No. 92-012, "Final Audit Report on the Administration of Contract Terminations for Convenience," November 13, 1991, stated that processing terminations for convenience was inadequate.

**FREQUENCY OF PROBLEMS IN THE 14 REPORTS
ON CONTRACT TERMINATIONS**



Termination of Excess On-Order Assets

Contracts containing excess on-order assets were not always terminated or recommended for termination by the item managers. Policies and procedures did not specify how to make termination decisions, and supervisors did not review item manager decisions or change incorrect decisions. In addition, information was not adequately coordinated between item managers and contracting officers to ensure timely

contract terminations. Item managers and contracting officers also made uneconomical termination decisions, and many termination decisions were not based on a cost-benefit analysis.

Excess On-Order Assets Used as Government-Furnished Material

Item managers did not take advantage of the opportunity to use excess on-order assets as GFM on production contracts when it was not economical to terminate the contracts. There was no policy in effect to require the use of excess on-order assets as GFM, when feasible. As a result, unnecessary investments in inventory were made and DoD assumed the risk of excess assets becoming obsolete before being used. In addition, potential monetary benefits could be realized if excess on-order assets were used as GFM. IG, DoD, Report No. 90-010, "Summary Report on the Audits of Contract Terminations," November 21, 1989, projected that \$156.9 million of excess on-order assets for three inventory control points could be used as GFM on production contracts.

Validation of Excess On-Order Assets

Validations of excess on-order assets were inaccurate and incomplete, resulting in unidentified excess on-order assets. Contracts containing excess on-order assets were not considered for termination. Item managers understated and overstated quantities of excess on-order assets, which resulted in partial contract terminations of either too few or too many assets. Erroneous data in the requirements computation system were not always identified and corrected by item managers. In addition, item managers made unjustified and unauthorized changes to the data in the requirements computation system. GAO Report No. GAO/NSIAD-90-105, "Defense Inventory, Defense Logistics Agency's Excess Material on Order," March 6, 1990, showed that item managers increased requirements on some items to keep them from showing as excess on-order assets, or to avoid making any type of termination decision.

Adequacy of Economic Termination Model

Air Force student report, "Air Force Termination Analyses for Recoverable Spares," March 1989 and AFAA Report No. 9126110, "Review of Excess On-order Recoverable Spares," July 17, 1989,

discussed problems with the design of the Air Force economic termination model, used to assist in making decisions to continue or to terminate contracts. The reports stated that the model did not provide accurate costs (storage, transportation, contractor, and termination settlement). In addition, costs to terminate a contract were incorrectly calculated because contractor and termination settlement costs did not account for the time value of money. Also, unit price vs. item weight was used in calculating transportation costs. The inaccuracies in costs made it difficult to arrive at the most cost-effective decision -- to terminate the contract containing excess on-order assets, or to continue the contract to completion. As a result, potential savings were lost through uneconomical termination decisions.

Administering Terminations for Convenience

IG, DoD, Report No. 92-012, stated that terminations for convenience handled by DLA were untimely. Delays in termination settlements occurred because policies and procedures did not specify time frames for establishing termination cases and contractor submission of inventory schedules on terminated contracts. Policies and procedures also did not delineate TCO responsibility to monitor the plant clearance function for contracts terminated for convenience. Management internal control objectives and techniques for the termination for convenience program were inadequate. Failure to terminate contracts in a timely manner delayed the redistribution of an estimated \$412 million of materials and property from terminated contracts.

DLA did not effectively administer the contract termination program. Standards and procedures to evaluate and measure the effectiveness of the termination program did not exist. Critical information in the termination data base was unreliable because of a 41-percent error rate. As a result, DLA management did not have adequate visibility and oversight of the contract termination program. Variable workload and staffing levels at DLA administrative offices indicated that DLA did not have an effective basis to determine the resources needed to effectively administer contracts terminated for convenience.

SUMMARY OF RECOMMENDATIONS

Report recommendations addressed the need for compliance with existing policies and implementation of procedures to ensure that cost-effective termination decisions were made. Training was needed to ensure compliance with existing policies. Additional controls over validation of excess on-order asset positions and verification of the accuracy of excess on-order assets were also needed. Policy changes were needed to facilitate the contract termination process; specifically the use of excess on-order assets as GFM and more specific termination policy. At the time of our review, the Office of the Deputy Assistant Secretary of Defense for Logistics was evaluating a draft DoD Instruction that addressed the contract termination process. One report recommended improvements in processing terminations for convenience, including the timeliness of contract terminations, and standards and procedures to improve management of the DLA contract termination program.

CONCLUSION

Terminating contracts with excess on-order assets typically received a lower priority than ordering assets to meet customer requirements. An effective termination decision process is critical to ensure that DoD resources are expended to procure only mission-essential assets. Once the termination decision was made, processing the termination was key to a cost-effective settlement. DoD-wide termination policy for contracts with excess on-order assets consisted of a memorandum, "Contract Terminations of Secondary Items No Longer Needed," December 13, 1989. The memorandum was not specific in its guidance. Additional audit coverage is needed to evaluate the effectiveness of new policies being developed. At the time of this report, OIG, DoD, has an ongoing audit evaluating the cost-based termination model, Project No. 1LE-0067, "Contract Terminations, Wholesale Inventory Control Activities."

F. TIME-AND-MATERIALS CONTRACTS

SUMMARY

Time-and-materials contracts were not effectively monitored. Proper surveillance of the contracts was needed to ensure that Government interests were protected. If contractor-proposed labor hours and costs were not adequately reviewed before awarding a time-and-materials contract, the Government had no assurance that contractor proposals were fair and reasonable. Other problem areas addressed were payments, full and open competition, material and equipment purchases, and justification for using time-and-materials contracts.

BACKGROUND

The Federal Acquisition Regulation and the Defense Federal Acquisition Regulation Supplement cite the guidelines for using a variety of cost-reimbursement contract types. The type least preferred is a time-and-materials contract because the contractor has no incentive to control material costs or efficiently manage the labor force. The contractor is paid for materials at cost and for direct labor hours at specified fixed hourly rates. The FAR contains two requirements for the use of time-and-materials contracts. The contracting officer must determine that no other contract type is suitable, and the contract must contain a ceiling price. The FAR requires that the Government maintain appropriate surveillance of the contractor's performance and costs to ensure that efficient methods are used.

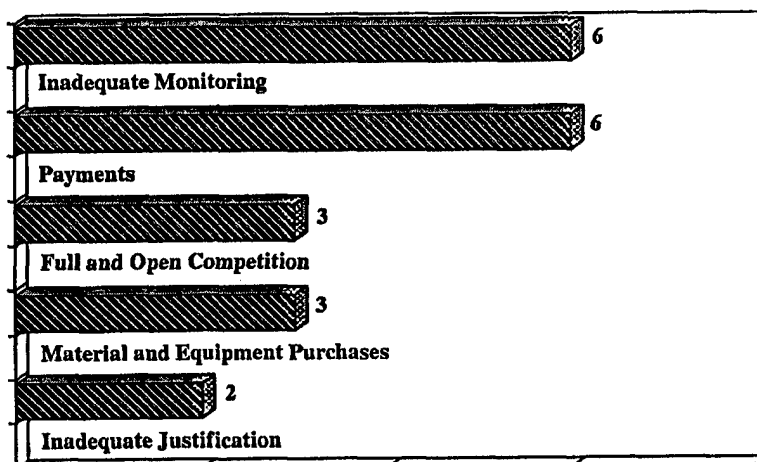
REFORM EFFORTS

On March 15, 1991, the Office of Federal Procurement Policy issued a memorandum providing Government-wide guidance on the need to place greater emphasis on contract management and administration. The memorandum addressed performance-based statements of work and surveillance plans. Performance indicators, performance standards, acceptable quality levels, and sampling methods should be used in statements of work and surveillance plans to advance "the use of quality assurance deduction schedules and incentives to motivate the contractor toward the desired level of performance." The guidance also included Policy Letter 90-X on service contracting to emphasize the use of performance requirements and standards in defining contract requirements and quality assurance procedures, and in source selection. This approach provided the means to ensure that appropriate performance quality levels were achieved, and that payment would be made only for services that met contract standards.

DISCUSSION

We reviewed eight reports that addressed time-and-materials contracts. Significant problems identified in these reports were inadequate monitoring of time-and-materials contracts, excess payments, lack of full and open competition, improper acquisition of material and equipment, and inadequate justification for using time-and-materials contracts.

**FREQUENCY OF PROBLEMS IN THE 8 REPORTS
ON TIME-AND-MATERIALS CONTRACTS**



Inadequate Monitoring

Time-and-materials contracts were not effectively monitored, and technical personnel were not given sufficient guidance describing their responsibilities. As a result of ineffective monitoring, a contractor was reimbursed for unallowable costs; goods were purchased that were not in the statement of work; contracting duties were not adequately separated; funds were not adequately controlled; procedures for monitoring contractor performances were not effective; and invoices for payment were not adequately certified. Army Audit Report No. NE 90-9, "Time and Materials Contracts, U.S. Army Communications Electronics Command, Directorate for Procurement, Fort Monmouth, NJ," August 6, 1990, stated that contracting officers did not appoint representatives for four of the seven contracts reviewed. Consequently, contracting officers did not adequately monitor contractor performances and costs or ensure that contractors complied with all contract terms.

Administrative contracting officers did not have surveillance plans for overseeing and documenting contractor performance. Surveillance plans become the means by which ACOs and technical personnel coordinate plans to verify labor skills, certify invoices, and conduct on-site inspections of contractor labor charging practices. Contracting officers did not effectively oversee actions taken by technical personnel assigned to monitor contract performance, and technical personnel did not provide feedback or any evidence that surveillance functions were employed. As documented by IG, DoD, Report No. 91-030, "Justification For Use of Time-and-Materials Contracts," January 8, 1991, surveillance plans were not used for 251 of the 262 time-and-materials orders reviewed.

The qualifications of personnel used by contractors under time-and-materials contracts were seldom verified, although their qualifications may have been the principal factor considered when awarding the contract. Contractors were allowed to substitute and add employees without submitting additional resumes for approval or identifying the names of personnel substituted or added on their billings. Therefore, it could not be determined if the contractor was providing qualified personnel for the labor rates invoiced and if the labor hours and other direct costs charged to the Government were reasonable. In IG, DoD, Report No. 91-010, "Administration of Time-and-Materials Contracts at the U.S. Army Troop Support Command," November 7, 1990, a total of \$145,552 was overpaid for personnel that did not possess the qualifications required for the labor categories invoiced.

Payments

IG, DoD, Report No. 91-030, stated that the Treasury would have saved at least \$12 million of annual interest costs, and as much as \$70 million of interest over the next 6 years if proper withholding of labor charges was done consistently. Those amounts were based on the current level of time-and-materials procurements and the amounts that should have been withheld from time-and-materials contracts. The procedures to review and approve vouchers for payment did not provide the necessary controls to ensure that a portion of the direct labor charges would be withheld as required by the contract clause.

Army Audit Report No. NE 90-9 also found that 5 percent of labor charges was not consistently withheld from most time-and-materials contracts even though the contracts usually contained standard withholding clauses. Personnel responsible for certifying and paying invoices did not review invoices for the withholding provisions and in some instances were unaware the withholding clause existed. As a result, the Treasury incurred about \$918,000 in interest costs to pay for amounts that were not withheld.

Full and Open Competition

Army Audit Report No. NE 90-9, reported that statements of work were restrictive and limited the number of qualified sources responding to competitive solicitations. Although contracting officers solicited multiple sources for 45 percent of the open time-and-materials contracts, only 1 bid was received for 11 of the contracts. During the solicitation process, the procurement office did not adequately identify all qualified suppliers. Of the 107 open time-and-materials contracts, 59 were awarded sole source. Market surveys were not adequate, and synopses prepared for the *Commerce Business Daily* did not encourage competition.

IG, DoD, Report No. 91-010, identified a modification that incorporated seven new labor categories not originally proposed in the contract. The modification was prompted by a delivery order issued 5 days after the contract was awarded. The delivery order tasked a data collection requirement that went "beyond the original contract scope of work." The prime contractor provided the statements of work for the data collection tasks to the subcontractor without any changes. The subcontractor performed all the data collection tasks. The prime contractor was paid

at least \$500,000 just for administering the Army's statement of work. The report stated that the data collection was a separate requirement that should have been competitively awarded to ensure the Government obtained the best possible price.

Material and Equipment Purchases

Contracting officers circumvented the normal procurement process and restricted competition by using time-and-materials contracts to acquire nonexpendable items. Data processing equipment and related accessories were purchased to support research and development efforts. None of these items met the FAR definition of materials for time-and-materials contracts because the items did not enter directly into an end-item or were not consumed during contract performance. Reports indicated that contractors improperly purchased nonexpendable items totaling about \$6.4 million. In addition, one of the contractors purchased nonexpendable items without having an approved purchasing system as required by the FAR.

Also, controls over materials purchased under time-and-materials contracts were not adequate. Because contractors did not itemize material charges on invoices or provide adequate supporting documentation, contracting officers could not verify the accuracy and reasonableness of such charges. The Government paid about \$14 million for materials without knowing what items were actually acquired.

Inadequate Justification

The use of time-and-materials contracts was not properly limited. At activities audited, the number and dollar value of time-and-materials contracts had substantially increased since FY 1985. The Army Audit Agency Report No. NE 90-9 reported a 67-percent increase in the number of time-and-materials contracts, and about a 156-percent increase in the dollar value of orders issued against those contracts over the 4-year period ended FY 1988. The extensive increase in time-and-materials contracts was not justified. Documentation prepared to support the contract type selected usually was not adequate. In addition, procurement officials did not use available historical cost and performance data to select the appropriate contract type.

In IG, DoD, Report No. 91-030, contracting officers used basic ordering agreements to obtain technical and engineering or repair and maintenance support services for 10 time-and-materials contracts valued at \$60 million. However, 9 of the 10 basic ordering agreements were structured in such a way that only time-and-materials contracts could be awarded. Thus, even when the specific requirement was defined in sufficient detail to award a more preferable contract type, contracting officers consistently awarded time-and-materials contracts.

SUMMARY OF RECOMMENDATIONS

The reports made recommendations addressing the need for compliance and clarification of existing policies. The reports also stressed the need for increased training on the award and management of time-and-materials contracts. The IG, DoD, Report No. 91-030, recommended that the Defense Acquisition Regulations Council revise the DFARS, Parts 201, 202, and 252. The recommendation stated that DFARS should address the appointment, authority, and responsibilities of contracting officer representatives, contracting officer technical representatives, and other technical personnel used to monitor contract performance. Revisions were included in the 1991 DFARS.

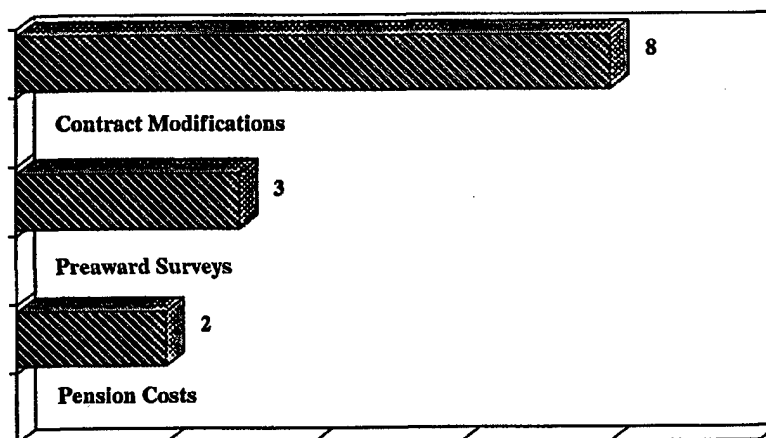
CONCLUSION

Time-and-materials contracts do not afford contractors any positive profit incentive to control costs effectively or manage their labor forces because of the way costs are charged. Consequently, this type of contract should be used sparingly, and closely monitored. The recommendations in the reports indicated problems with compliance with existing policies, and the inadequacy of some of those policies. Additional audit attention is needed to evaluate the effectiveness of policy changes and implementation of other report recommendations.

G. OTHER CONTRACT MANAGEMENT AREAS

We included the contract management areas of contract modifications, preaward surveys, and pension costs in our review. Although the number of reports available for each of these areas was low, each subject was considered appropriate to include in our coverage of contract management issues.

FREQUENCY OF REPORTS ON OTHER
CONTRACT MANAGEMENT AREAS



CONTRACT MODIFICATIONS

BACKGROUND

The FAR defines a modification as any change to a contract, and it provides guidance on the modification process. To acquire the best possible price for additional work, a contractor's cost proposal and the Government's estimate are evaluated and negotiated. With an agreement of terms accepted, a notice to proceed is issued and work can begin, adding additional responsibilities and costs to the ongoing contract.

DISCUSSION

We reviewed eight reports that addressed contract modifications. Significant problem areas identified were inadequate contract specifications and ineffective administration of contract modifications.

Contract Specifications

Contract specifications were vague and did not provide adequate guidance. Without performance standards, specific measurable goals, or schedules of deliveries; no effective criteria to evaluate contractor performance existed. This caused excessive modifications and substantial cost increases.

For example, IG, DoD, Report No. 87-110, "Audit of the Acquisition of Landing Craft Air Cushion," April 3, 1987, documented a decision made after negotiations to convert a cost-plus-award-fee contract to a fixed-price-incentive-fee contract. Although the conversion was appropriate, the conversion modifications lacked specificity and were unenforceable with regard to affixing responsibilities. Subsequently, additional contract modifications and a memorandum of agreement were made for clarity and to affix responsibility. As a result of disputed responsibilities, the Navy incurred \$4.5 million in additional costs.

Other reports indicated that noncompetitive contract modifications were required because of deficiencies in contract terms and specifications. One report identified noncompetitive contract modifications that increased Government costs by \$896,000. Another

report discussed contract modifications that were made without proper evaluation by the contracting officers. A PCO accepted a price reduction on one contract that was \$277,163 less than appropriate.

Administration

GAO Report No. NSIAD-87-60, "Navy Contracting: Improving Management of Procurements for Computer-Aided Equipment," December 30, 1986, documented a basic contract that was modified 35 times, with no values identified in the modifications. The contract was approved at an initial estimated cost of \$30.6 million, but was awarded at \$63 million. The "current" value was estimated at \$99.9 million, based on cost growth resulting from the modifications. The contracting officer could not explain why the modifications did not specify a contract value. DFARS 16104.4 and 26-104 required that each modification clearly state the impact on the overall total contract price.

Historical data concerning the number of modifications, the reasons for the modifications, and the monetary impact were not maintained and evaluated. Consequently, management was not fully aware of the extent of the modifications. Closer management review of contract modifications was needed to identify potential adverse trends. Army Audit Report No. EU 88-4, "Engineering Operations, Darmstadt Military Community," August 25, 1988, documented 35 contracts that required 83 modifications, at a cost of about \$762,000. This amount represented a cost growth of 12 percent.

SUMMARY OF RECOMMENDATIONS

The reports made recommendations addressing the need for compliance with existing policies and the implementation of procedures to resolve contract control weaknesses. Reports also recommended establishing procedures to independently and objectively review and follow up on contract modifications. The proposed procedures included evaluating modifications to determine why additional requirements were not included in the original statement of work, making necessary corrections to other plans and specifications when applicable, and establishing follow-up procedures to identify methods and procedures for avoiding recurrence on future projects. There were no policy change recommendations.

CONCLUSION

Contract modifications play an integral part in the successful management of contracts. Proper specifications, and the availability of historical data on contract modifications can all contribute to the effective and efficient use of contract modifications and minimize adverse cost impacts.

PREAWARD SURVEYS

BACKGROUND

FAR Part 9, "Contractor Qualifications," requires contracting officers to determine that a potential contractor has a satisfactory performance record before awarding a contract. Standards for receiving a contract include adequate financial resources; the ability to comply with required delivery schedules; a satisfactory performance record; a record of integrity and business ethics; necessary organization, experience, accounting and operational controls, and technical skills; and the necessary equipment and facilities. Preaward surveys are formal reviews of contractor capabilities to ensure that contracts are awarded to responsible contractors. The Defense Contract Management Command performs preaward surveys for the Military Departments and the Defense agencies.

REFORM EFFORTS

The Defense Logistics Agency has enhanced the effectiveness of the preaward survey program by initiating the Contract Alert List. The list identifies contractors that may have performance problems and alerts contracting officers to seek additional information before making a contract award.

DISCUSSION

We reviewed three reports that addressed preaward surveys. Significant problem areas identified in the reports were the use of information provided by preaward surveys and the adequacy of the documentation of contractor responsibility provided to contracting officers.

Use Of Preaward Survey Results

Preaward surveys provide information to contracting officers about the ability of a contractor to perform the contract. When preaward surveys produced evidence suggesting that a contractor could not meet one or more aspects of the Government's requirement, careful and full consideration was not given to such information.

Documentation Of Contractor Responsibility

Performance history records for contractors did not contain all quality complaints received for the contractors. As a result, PCOs were not provided needed performance details in preaward survey reports. GAO Report No. GGD-87-65, "GSA Procurement: Quality Assurance for Common-Use Items Should Be Improved," June 29, 1987, found that 21 of 24 preaward surveys did not contain needed details on contractors' performance histories.

Neither the FAR nor the Code of Federal Regulations provide specific guidance on how contracting officers should document the determination of contractor responsibility. Contracting officers relied on past performance as the prime determination factor and did not believe additional information was necessary. In addition, contracting officers did not adequately document the procedures used in determining contractor responsibility when a preaward survey was not accomplished. The Government assumed increased risk when adequate determination of contractor capability was not made.

SUMMARY OF RECOMMENDATIONS

The reports made recommendations to issue guidance and develop procedures to ensure compliance with existing policies. One report specifically recommended issuing guidance to document the process of determining contractor responsibility. In addition, reports recommended developing procedures to ensure that all complaints received by contract management divisions were recorded in performance histories and that details on past performance were included in preaward survey reports.

CONCLUSION

Information provided by preaward surveys helps contracting officers make good contracting decisions. However, the reports indicated that despite the value of this information, contracting officers often ignored it. Compliance with existing policies and procedures needed to be monitored to ensure that all pertinent information was considered in the contract award process.

PENSION COSTS

BACKGROUND

DoD pays its pro-rata share of contractor pension costs based on the percentage of Government sales. Cost Accounting Standards 412 and 413 provide defense contractors with guidelines and requirements for the funding, measurement, and allocation of pension plan costs. FAR Subsection 31.201-5 states:

...the applicable portion of any income, rebate, allowance, or other credit relating to any allowable cost and received by or accruing to the contractor shall be credited to the Government either as a cost reduction or by cash refund.

Reviews of contractor pension costs are performed by DCAA and DLA. DCAA reviews pension costs charged to specific contracts, whereas DLA reviews the contractor's overall pension program. Guidance for performing contractor pension reviews is contained in FAR Section 42.302, "Contract Administration Functions," DLAM 8105.1, Part 28.3, "Contractor Insurance/Pension Review Program," and DLAM 8105.3 "Defense Contract Administration Services Manual for Conducting Contractor Insurance/Pension Reviews."

REFORM EFFORTS

The Cost Accounting Standards Board issued two discussion papers for comment on accounting for fully-funded defined benefit pension plans and accounting for unfunded pension plans. One paper addressed the need for improvement and clarification of the cost accounting rules to be applied when defined benefit pension plans are subject to the

maximum funding limitations. The other paper proposed a revision to Cost Accounting Standard 412, "Composition and Measurement of Pension Cost," to require that unfunded pension plan costs, which do not meet the standard for accrual, be assigned in the accounting period in which payments are made to retirees.

DISCUSSION

We reviewed two reports that covered the area of pension costs. The reports showed the DoD entitlement to excess pension plan assets was not well defined, contractor debts were not properly collected, DLA and DCAA did not coordinate pension reviews, and findings and recommendations were not tracked through to resolution.

DoD Interest In Excess Pension Plan Assets

The DoD entitlement to excess pension plan assets was not clearly identified in policies. IG, DoD, Report No. 89-047, "Pension Plan Costs of Defense Contractors," January 25, 1989, stated that interests of DoD were not adequately protected and the entitlement to excess assets in an overfunded and terminated pension plan was unclear. As a result, \$195 million of excess pension plan assets may not be recovered. Recovery of the Government's portion of pension plan assets in the debt collection process was also not proper. In addition, pension cost advance agreements between defense contractors and DoD, on pension plan terminations and full-funding limitation restrictions, were generally not accepted by the contractors.

Reviews Of Pension Plan Costs

Two reports addressed the lack of coordination between DCAA and DLA for pension plan reviews. This problem occurred because of inadequate guidance specifying each agency's roles and responsibilities for the reviews. As a result, the agencies duplicated efforts and issued inconsistent reports. In addition, the IG, DoD, report on pensions stated that because of inadequate guidance on follow-up requirements, the follow-up system of DLA for pension reports did not adequately track report findings and recommendations through to resolution.

SUMMARY OF RECOMMENDATIONS

IG, DoD, Report No. 89-047, recommended that the Assistant Secretary of Defense (Production and Logistics) initiate policy changes to protect Government interests in excess pension plan assets. FAR Part 31, "Contract Cost Principles and Procedures," and Subsection 52.215-27, "Termination of Defined Benefit Pension Plans," have been revised. The Cost Accounting Standard case on termination of overfunded pension plans had not been addressed by the Cost Accounting Standards Board as of this report. A recommendation was made to DLA to improve the coordination process for DLA and DCAA pension reviews. The applicable regulations were changed to implement the recommendation.

CONCLUSION

Policy changes have provided protection for the Government interest in excess pension plan assets. Continued oversight of pensions is needed because of the ongoing changes to contractor organizational and financial structures resulting from the downsizing of the DoD.

PART III : ADDITIONAL INFORMATION

APPENDIX A: MATRIX OF REPORTS REVIEWED

SUMMARY SCHEDULE OF PROBLEMS IDENTIFIED IN REPORTS

Number of Audit Reports, Inspections,
Studies, or Reviews With the Problems

REPORT SECTION	FINDINGS	ARMY	AAA	NAVY	NAS	AIR FORCE	ABAA	DLA	IG, DOD	GAO	TOTAL
B.	Quality Assurance and Related Areas	2	20	1	0	3	5	1	9	4	45
C.	Government-Furnished Property	0	7	2	2	1	1	0	12	3	28
D.	Contract Closeout	1	3	0	4	1	2	0	6	0	17
E.	Contract Terminations	0	0	2	1	1	1	0	7	2	14
F.	Time-And-Materials Contracts	0	3	0	0	0	0	0	5	0	8
G.	Other Contract Management Areas	1	3	0	1	0	0	0	5	3	13

APPENDIX B: REPORTS REVIEWED ON QUALITY ASSURANCE AND RELATED AREAS

An analysis of the reports reviewed showed problems that were common to more than one report. The common problem areas were numbered for easy reference, and are listed below.

- 1 - Quality Assurance Programs
- 2 - Nonconforming Products
- 3 - Contractor Quality Control Programs
- 4 - Reporting Quality Problems

<u>Title, Date, and Number</u>	<u>Report Contains Common Problems</u>
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DEPARTMENT OF THE ARMY

"U.S. Army Tank-Automotive Service Contract Surveillance Task Force Study," Army-Tank Automotive Command, September 1988.	1
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"Cost Plus Award Fee Contract Quality Assurance Study For Commercial Activities Contracts, U.S. Army Engineering and Housing Support Center," October 31, 1989, Report No. S-22.	1
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ARMY AUDIT AGENCY

"Contractor Operated Parts Store, 24th Infantry Division (mechanized) and Fort Stewart, Fort Stewart, GA," January 5, 1988, Report No. SO 88-7.	1
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Title, Date, and Number	Report Contains Common Problems
"Contract Administration, U.S. Army Dugway Proving Ground," May 5, 1988, Report No. WE 88-14.	1
"Acquisition and Contract Administration, 6th Infantry Division (Light) and Fort Richardson, Fort Richardson, AK," May 16, 1988, Report No. WE 88-17.	1
"Contractor Operations of Commercial Activities Base Support Services, U.S. Army Missile Command, Redstone Arsenal, AL," June 16, 1988, Report No. SO 88-203.	1
"U.S. Army Training and Doctrine Command, Contracting Activity, Fort Hood Division, Fort Hood, TX," June 30, 1988, Report No. SW 88-19.	1
"Award and Administration of Service Contracts, U.S. Army Europe and Seventh Army," June 30, 1988, Report No. EU 88-315.	1
"Port Operations, Military Traffic Management Command, Gulf Outport, New Orleans," September 13, 1988, Report No. SW 88-24.	1
"Acquisition and Contract Administration, Huntington District, U.S. Army Corps of Engineers, Huntington, WV," September 30, 1988, Report No. EC 88-709.	1,3
"Food Service Operations, U.S. Army Quartermaster Center and Fort Lee, Fort Lee, VA," September 30, 1988, Report No. EC 88-11.	1,3
"Quality Assurance Over Software Development and Maintenance," October 17, 1988, Report No. HQ 89-200.	1

Title, Date, and Number	Report Contains Common Problems
"Contractor Operated Parts Store, XVIII Airborne Corps and Fort Bragg, Fort Bragg, NC," October 31, 1988, Report No. SO 89-1.	1
"Acquisition and Contract Administration, U.S. Army Corps of Engineers, Waterways Experiment Station, Vicksburg, MS," April 13, 1989, Report No. SO 89-11.	1
"Acquisition and Contract Administration, U.S. Army Transportation Center and Fort Eustis, Fort Eustis, VA," April 14, 1989, Report No. EC 89-6.	1
"Acquisition and Contract Administration, U.S. Army Armor Center and Fort Knox, Fort Knox, KY," June 26, 1989, Report No. MW 89-12.	1
"Acquisition and Contract Administration, U.S. Army Engineer Center and Fort Leonard Wood, Fort Leonard Wood, MI," December 22, 1989, Report No. MW 90-2.	1
"Quality of Materiel, U.S. Army Materiel Command, Alexandria, VA," January 16, 1990, Report No. EC 90-201.	2,4
"Acquisition and Contract Administration, General Procurement Branch, Charles Melvin Price Support Center, Granite City, IL," February 14, 1990, Report No. NW 90-4.	1,3
"Acquisition and Contract Administration, Eighth U.S. Army, Seoul, Korea," March 2, 1990, Report No. WE 90-6.	1
"Contracting Operations, Fitzsimons Army Medical Center, Aurora, CO," August 6, 1990, Report No. SW 90-23.	1
"Time and Materials Contract, U.S. Army Communications Electronics Command," August 6, 1990, Report No. NE 90-9.	1

<u>Title, Date, and Number</u>	<u>Report Contains Common Problems</u>
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DEPARTMENT OF THE NAVY

"An Evaluation of Factors That Influence Service Contract Quality,"
Naval Postgraduate School, December 1989, DTIC AD-A220-128. 1

DEPARTMENT OF THE AIR FORCE

"Quality Improvement: Does the Air Force Systems Command
Practice What It Preaches?", Air University, Center for Aerospace
Doctrine, Research, and Education, March 1990, Report
No. AU-ARI-88-13, DTIC AD-A224-615. 1,2

"Quality: The Elusive Challenge," Air University, Air Command
and Staff College, April 1988, Report No. 88-1605,
DLSIE LD 076755A. 1,2,4

"Quality Assurance Evaluation Program Coordinator," Air Force
Logistics Management Center, February 1989, Report No. LC 840701. 1

AIR FORCE AUDIT AGENCY

"Administration of Training Contracts," February 10, 1988,
Report No. 7165113. 1

"Review of the Air Force Contract Management Division's
Quality Assurance Information System," April 6, 1989,
Report No. 8076415. 1

"Review of Air Force Contractor Logistics Support Contracts,"
December 29, 1989, Report No. 8076418. 1

Title, Date, and Number	Report Contains Common Problems
"Air Force Systems Command Material Inspection and Review Procedures," May 4, 1990, Report No. 9076411.	1,2
"Management of the Depot Maintenance Quality Assurance Program," September 20, 1990, Report No. 9106216.	1

DEFENSE LOGISTICS AGENCY

"Impact of Competition on Quality," Defense Logistics Agency, Operations Research and Economic Analysis Office, September 1990, Report No. DLA-90-P81018.	2
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INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

"Nonconforming Products in the Defense Supply System at Warner Robins Air Logistics Center," April 10, 1989, Report No. 89-065.	1,2,3,4
"Acquisition of the V-22 Joint Services Advanced Vertical Lift Aircraft," June 14, 1989, Report No. 89-077.	1,2
"Inspection of Defense Depot Mechanicsburg, PA; Defense Depot Odgen, UT; and Defense Depot Columbus, OH," August 16, 1989, Report No. 89-INS-09.	1
"Primary Care For Uniformed Services and Navy Cares Programs," December 6, 1989, Report No. 90-012.	1,3
"Management and Administration of Quality Assurance for Aircraft Maintenance Contracts," December 26, 1989, Report No. 90-027.	1,3,4
"Contracting Practices of the Institute for Defense Analyses," March 1, 1990, Report No. 90-041.	1

Title, Date, and Number	Report Contains Common Problems
"Procedures for Monitoring Commercial Activities' Functions After Completion of A-76 Competitions," July 5, 1990, Report No. 90-096.	1
"Nonconforming Products Procured by the Defense Industrial Supply Center," September 27, 1990, Report No. 90-113.	1,2,3,4
"Advisory Report on the Acquisition of Components and Spare Parts," March 7, 1991, Report No. 91-060.	1,2,3,4
"Quality Assurance Actions Resulting from Electronic Component Screening" June 8, 1992, Report No. 92-099*	1,2,3,4

U.S. GENERAL ACCOUNTING OFFICE

"Quality Assurance: Efforts to Strengthen DoD's Program," November 3, 1986, Report No. GAO/NSIAD-87-33.	1
"Army Procurement: Defense Logistics Agency's Administration of Contracts for Canteen Cups," November 27, 1987, Report No. GAO/NSIAD-88-16.	1
"Quality Assurance: Concerns About Four Navy Missile Systems," March 24, 1988, Report No. GAO/NSIAD-88-104.	1,2,3
"Procurement: Department of Defense Quality Assurance Efforts," November 2, 1988, Report No. GAO/NSIAD-89-28FS.	2,4

* This report was added after completion of the project. It is not included in the counts of reports or common problems. We included it in the appendix for your information.

APPENDIX C: REPORTS REVIEWED ON GOVERNMENT-FURNISHED PROPERTY

An analysis of the reports reviewed showed problems that were common to more than one report. The common problem areas were numbered for easy reference, and are listed below.

- 1 - Accountability and Control
- 2 - Management Support
- 3 - Excess Property
- 4 - Rental Rates
- 5 - Fees Awarded to Contractors

<u>Title, Date, and Number</u>	<u>Report Contains Common Problems</u>
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ARMY AUDIT AGENCY

"Contractor Operations of Commercial Activities Base Support Services, U.S. Army Missile Command, Redstone Arsenal, AL," June 16, 1988, Report No. SO 88-203.	1,2
"Food Service Operations, U.S. Army Quartermaster Center and Fort Lee, Fort Lee, VA," September 30, 1988, Report No. EC 88-11.	1
"Audit of Acquisition and Contract Administration, Natick, MA," November 7, 1988, Report No. NE 89-1.	1,2

Title, Date, and Number	Report Contains Common Problems
"Contractor Logistics Support Multiple Integrated Laser Engagement Systems," February 8, 1989, Report No. MW 89-300.	1,2,3
"Regional Data Center-Killeen, Killeen, TX," December 12, 1989, Report No. SW 90-5.	1,2
"Audit of Acquisition and Contract Administration, Seoul, Korea," March 2, 1990, Report No. WE 90-6.	1,2
"U.S. Army Electronic Proving Ground Fort Huachuca, AZ," June 11, 1990, Report No. WE 90-13.	1

DEPARTMENT OF THE NAVY

"What Effect Has Contracting Out for Commercial Activities Had on Naval Property Administration?," Naval Postgraduate School, December 1987, DTIC AD-A188-569.	1,2
"Analysis of Disputes Relative to Government Furnished Property," Naval Postgraduate School, June 1990, DLSIE LD 084021A.	1

NAVAL AUDIT SERVICE

"Selected Aspects of Procurement, Contract Administration, Financial Management, Material Management, Property and Equipment Control, and Business Review at Supervisor of Shipbuilding, Conversion and Repair, USN, San Diego, CA," April 26, 1988, Report No. 061-W-88.	1,3
"Government Material Furnished to Navy Aviation Contractors," June 29, 1989, Report No. 054-N-89.	1,3

<u>Title, Date, and Number</u>	<u>Report Contains Common Problems</u>
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DEPARTMENT OF THE AIR FORCE

"An Independent Analysis of the Various Property Administration Techniques Employed Throughout the Department of Defense Contract Administration Function," Air University, Air Force Institute of Technology, September 1987,
Report No. AFTT/GLM/LSM/87S-14, DTIC AD-A187-864. 2

AIR FORCE AUDIT AGENCY

"Contractor Use of Government Furnished Equipment for Commercial Work," October 30, 1989, Report No. 9066411. 1,4

INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

"Audit Report on Government-Furnished Property Provided by the National Security Agency," April 9, 1987,
Report No. 87-124. 1,3

"Audit of Fees Charged for the Acquisition of Government-Owned Contractor-Operated Facilities,"
May 6, 1987, Report No. 87-140. 5

"Inspection of DLA Contract Administration Services,"
July 24, 1987, Report No. 87-INS-005. 1,2

"Inspection of Defense Nuclear Agency," September 28, 1987,
Report No. 87-INS-007. 1

"Administration of Other Plant Equipment by Washington, DC Area Contractors," May 6, 1988, Report No. 88-143. 1,2,5

"Contractor Rental of Government Real Property and Payments of Nonrecurring Costs," June 30, 1989, Report No. 89-087. 4

Title, Date, and Number	Report Contains Common Problems
"CH-47D Remanufacture Contracts With Boeing Helicopters," August 22, 1989, Report No. 89-102.	3
"Audit of the Administration of Rental of DoD Plant Equipment at Boeing Helicopters," December 6, 1989, Report No. 90-013.	4
"Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors," March 2, 1990, Report No. 90-043.	1,2,3
"Government-Furnished Property Administration at the Defense Nuclear Agency," April 18, 1990, Report No. 90-060.	1,2,3
"Audit of the Administration of Rental of DoD Plant Equipment at Saco Defense Incorporated," May 9, 1990, Report No. 90-065.	4
"Contractor Rental of DoD Plant Equipment at Textron Lycoming, Stratford Division, A Subsidiary of Textron Incorporated," January 28, 1991, Report No. 91-035.	4

U.S. GENERAL ACCOUNTING OFFICE

"Internal Controls: Status of Army Efforts to Control Contractor Access to the DoD Supply System," March 11, 1988, GAO/NSIAD-88-98.	1,2
"Internal Controls: Air Force Can Improve Controls Over Contractor Access to DoD Supply System," March 18, 1988, GAO/NSIAD-88-99.	1,2,3
"DoD's Management of the Property It Furnishes to Contractors," May 26, 1988, GAO/NSIAD-88-151.	1,2,3

APPENDIX D: REPORTS REVIEWED ON CONTRACT CLOSEOUT

An analysis of the reports reviewed showed problems that were common to more than one report. The common problem areas were numbered for easy reference, and are listed below.

- 1 - Timeliness of Contract Closeout
- 2 - Excess Unliquidated Obligations
- 3 - Contract Overpayments

<u>Title, Date, and Number</u>	<u>Report Contains Common Problems</u>
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DEPARTMENT OF THE ARMY

"Subject Matter Assessment of Contract Closeout," U.S. Army Materiel Command Management Engineering Activity, July 1987.

1,3

ARMY AUDIT AGENCY

"Contract Closeout Process," June 9, 1987, Report No. HQ 87-705.

1,2,3

"Award and Administration of Service Contracts in U.S. Army, Europe and Seventh Army," June 30, 1988, Report No. EU 88-315.

1,2,3

"Contract Closeout Procedures, U.S. Army Contracting Command, Europe," February 20, 1991, Report No. EU 91-301.

1,2

<u>Title, Date, and Number</u>	<u>Report Contains Common Problems</u>
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NAVAL AUDIT SERVICE

"Selected Aspects of Contract Administration at the Naval Sea Command," February 18, 1988, Report No. 056-C-88.	1,2
"Procurement and Contract Administration Functions at the Naval Regional Contracting Center, Philadelphia, PA," March 30, 1988, Report No. 099-N-88.	1,2
"Financial Management, Contract Administration and Procurement at Marine Corps Development and Education Command, Quantico, VA," September 30, 1988, Report No. 112-C-88.	1,2
"Major Procurement and Contract Administration at Marine Corps Logistics Base, Albany, GA," August 3, 1989, Report No. 056-S-89.	2

DEPARTMENT OF THE AIR FORCE

"Unliquidated Obligations - Prevent Valid Budget Execution," Air University, Center for Professional Development, June 1988, DLSIE LD 074349A.	1,2
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AIR FORCE AUDIT AGENCY

"Closeout of Physically Completed Contracts with Unliquidated Obligations," July 14, 1988, Report No. 7066411.	1,2,3
"Follow-up Audit--Closeout of Physically Completed Contracts with Unliquidated Obligations," May 31, 1991, Report No. 0066414.	1,2

Title, Date, and Number	Report Contains Common Problems
INSPECTOR GENERAL, DEPARTMENT OF DEFENSE	
"Inspection of Defense Supply Service - Washington," February 22, 1988, Report No. 88-INS-01.	1,2
"Plant Clearance Action on Government-Owned Property in the Possession of Defense Contractors," March 2, 1990, Report No. 90-043.	1
"Administration of the Contract Closeout Process at the Defense Contract Management Region, Dallas," September 18, 1990, Report No. 90-108.	2,3
"Administration of the Contract Closeout Process at the Defense Contract Management District Mid Atlantic," March 20, 1991, Report No. 91-064.	1,2,3
"Administration of the Contract Closeout Process at the Defense Contract Management District West," March 20, 1991, Report No. 91-065.	1,2,3
"Report on the Audit of the Administration of the Contract Closeout Process Within DoD," April 15, 1992, Report No. 92-076.	1,3

APPENDIX E: REPORTS REVIEWED ON CONTRACT TERMINATIONS

An analysis of the reports reviewed showed problems that were common to more than one report. The common problem areas were numbered for easy reference, and are listed below.

- 1 - Termination of Excess On-Order Assets
- 2 - Excess On-Order Assets Used as GFM
- 3 - Validation of Excess On-Order Assets
- 4 - Adequacy of Economic Termination Model
- 5 - Administering Terminations for Convenience

<u>Title, Date, and Number</u>	<u>Report Contains Common Problems</u>
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DEPARTMENT OF THE NAVY

"Termination of U.S. Navy Procurement Contracts For
Secondary Items in Long Supply," Naval Postgraduate School,
June 1988, DTIC AD-A197-377.

1

"A Case Analysis of DoD Sustained Termination for
Default Decisions From the Armed Services Board of Contract
Appeals," Naval Postgraduate School, December 1988,
DTIC AD-B130-461.

none

<u>Title, Date, and Number</u>	<u>Report Contains Common Problems</u>
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NAVAL AUDIT SERVICE

"Major Procurement and Contract Administration at Marine Corps Logistics Base, Albany, GA," August 3, 1989, Report No. 056-S-89.	1
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DEPARTMENT OF THE AIR FORCE

"Air Force Termination Analyses for Recoverable Spares," Air University, Center for Professional Development, December 1988, DLSIE LD 075760A.	2,4
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AIR FORCE AUDIT AGENCY

"Review of Excess On-Order Recoverable Spares," July 17, 1989, Report No. 9126110.	4
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INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

"Contract Terminations at the Navy Aviation Supply Office," May 23, 1988, Report No. 88-153.	1,2,3
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"Contract Terminations at Army Inventory Controls Points," June 17, 1988, Report No. 88-172.	1
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"Contract Terminations at Army Inventory Control Points," October 13, 1988, Report No. 89-004.	1,2
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"Terminations at the Tank-Automotive Command," December 14, 1988, Report No. 89-040.	1,2
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"Contract Terminations at Army Inventory Control Points," March 29, 1989, Report No. 89-063.	1,2,3
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<u>Title, Date, and Number</u>	<u>Report Contains Common Problems</u>
"Summary Report on the Audits of Contract Terminations," November 21, 1989, Report No. 90-010.	1,2,3
"Final Audit Report on the Administration of Contract Terminations for Convenience," November 13, 1991, Report No. 92-012	5

U.S. GENERAL ACCOUNTING OFFICE

"Military Procurement, Air Force Should Terminate More Contracts for On-Order Excess Spare Parts," August 12, 1987, Report No. GAO/NSIAD-87-141.	1,3
"Defense Inventory, Defense Logistics Agency's Excess Material on Order," March 6, 1990, Report No. GAO/NSIAD-90-105.	1,3

APPENDIX F: REPORTS REVIEWED ON TIME-AND-MATERIALS CONTRACTS

An analysis of the reports reviewed showed problems that were common to more than one report. The common problem areas were numbered for easy reference, and are listed below.

- 1 - Inadequate Monitoring
- 2 - Payments
- 3 - Full and Open Competition
- 4 - Material and Equipment Purchases
- 5 - Inadequate Justification

<u>Title, Date, and Number</u>	<u>Report Contains Common Problems</u>
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ARMY AUDIT AGENCY

"Foreign Intelligence Contracting, U.S. Army Missile Command, Redstone Arsenal, AL," March 26, 1990, Report No. SO 90-700.	1
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"Contracting Operations, U.S. Army Armament, Munitions, and Chemical Command, Procurement and Production Directorate, Picatinny Arsenal, NJ," June 4, 1990, Report No. NE 90-8.	1,2,3,4
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"Time-And-Material Contracts: U.S. Army Communications Electronics Command, Directorate for Procurement, Fort Monmouth, NJ," August 6, 1990, Report No. NE 90-9.	1,2,3,4,5
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<u>Title, Date, and Number</u>	<u>Report Contains Common Problems</u>
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INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

"Oversight Review of Time-and-Materials Contracts by the DCAA," May 29, 1987, Report No. APO 87-009.	1
"Audit of Internal Controls for Recoupment of Overpayments," September 12, 1988, Report No. 88-199.	2
"Pricing of Indefinite Delivery Contract N00019-84-D-0176 At National Systems Management Corporation," December 15, 1989, Report No. 90-018.	2
"Administration of Time-and-Materials Contracts at the U.S. Army Troop Support Command," November 7, 1990, Report No. 91-010.	1,2,3,4
"Justification For Use of Time-and-Materials Contracts," January 8, 1991, Report No. 91-030.	1,2,5

APPENDIX G: REPORTS REVIEWED ON OTHER CONTRACT MANAGEMENT AREAS

An analysis of the reports reviewed showed problems that were common to more than one report. The common problem areas were numbered for easy reference, and are listed below.

- 1 - Contract Modifications
- 1a - Contract Specifications
- 1b - Administration
- 2 - Preaward Surveys
- 2a - Use of Preaward Survey Results
- 2b - Documentation of Contractor Responsibility
- 3 - Pension Costs
- 3a - DoD Interest in Excess Pension Plan Assets
- 3b - Reviews of Pension Plan Costs

Title, Date, and Number

Report Contains
Common Problems

DEPARTMENT OF THE ARMY

"Preaward Survey Teams, Lessons Learned," U.S. Army Materiel
Readiness Support Activity, January 1990,
Report No. RCS AMCSM-1021.

2a

ARMY AUDIT AGENCY

"Engineering Operations, Darmstadt Military Community,"
August 25, 1988, Report No. EU 88-4.

1a,1b

Title, Date, and Number	Report Contains Common Problems
"Acquisition & Contract Administration, Huntington District, U.S. Army Corps of Engineers, Huntington, WV," September 30, 1988, Report No. EC 88-709.	1a,1b

"Acquisition & Contract Administration, U.S. Army Corps of Engineers, Waterways Experiment Station, Vicksburg, MS," April 13, 1989, Report No. SO 89-11.	1a
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NAVAL AUDIT SERVICE

"Facilities Maintenance & Repair at Naval Shipyards," October 19, 1990, Report No. 005-N-91.	1b
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INSPECTOR GENERAL, DEPARTMENT OF DEFENSE

"Audit of the Effectiveness of Negotiation Strategy," September 23, 1986, Report No. 86-137.	1b
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"Audit of the Acquisition of Landing Craft Air Cushion (LCAC)," April 3, 1987, Report No. 87-110.	1a
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"Preaward Surveys," November 30, 1988, Report No. 89-035.	2b
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"Pension Plan Costs of Defense Contractors," January 25, 1989, Report No. 89-047.	3a,3b
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"Acquisition of the M9 Armored Combat Earthmover Program," October 6, 1989, Report No. 90-002.	1b
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U.S. GENERAL ACCOUNTING OFFICE

"GSA Procurement: Quality Assurance For Common-Use Items Should Be Improved," June 29, 1987, GAO/GGD-87-65.	2b
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Title, Date, and Number	Report Contains Common Problems
"Pension Costs, Oversight of Contractor Pension Costs Could Be Improved," January 23, 1986, Report No. GAO/NSIAD-86-85.	3b
"Navy Contracting: Improving Management of Procurements for Computer-Aided Equipment," December 30, 1986, Report No. GAO/NSIAD-87-60.	1b

APPENDIX H: MILITARY DEPARTMENTS' WORK LOAD PROFILE

The Military Departments' Plant Representative Offices were transferred to DLA/DCMC, with the exception of the Army Ammunition Plants and the Navy Supervisor of Shipbuilding. The Military Departments estimated that the following contract administration work load would be transferred to DLA from the Plant Representative Offices under the consolidation program:

	<u>ARMY</u>		<u>NAVY*</u>		<u>AIR FORCE</u>	
	<u>Number</u>	<u>Value</u> (\$BIL)	<u>Number</u>	<u>Value</u> (\$BIL)	<u>Number</u>	<u>Value</u> (\$BIL)
TOTAL CONTRACTS						
ADMINISTERED	6,584	37.5	23,291	133.8	4,403	937.4

* Data reported from the Navy do not include the Naval Sea Systems Command Navy Plant Representative Offices at FMC - Minneapolis, MN; UNISYS - Great Neck, NY; VITRO - Laurel, MD; General Dynamics - Pomona, CA.

The Military Departments estimated the following contract administration work load performed by various procurement offices. These data consist of base level contracts and limited major weapons systems contracts for FY 1990.

	<u>Number of Contracts/ Contractual Actions</u>	<u>Dollar Value (Billions)</u>
ARMY	3.4 (Million)	\$33.1
NAVY	126,986	76.5
AIR FORCE	36 ¹	3.5 ¹
	4.8 (Million) ²	7.7 ²

¹ Major Weapons Systems

² Base level contracts

The MOCAS system will support contract administration functions for all Defense Plant Representative Offices under DLA/DCMC. The implementation of MOCAS at the transferred Plant Representative Offices will be phased in as the work load can be absorbed. Contract payments will be made by DFAS - Columbus Center. Implementation of this support for the transferred offices will also be phased in as DFAS can absorb the work load.

APPENDIX I: DLA CONTRACT ADMINISTRATION SERVICES WORK LOAD AND RESOURCES PROFILE

DLA estimated the following work load of contracts being administered:

	<u>Number of Prime and Support Contracts</u>	<u>Number of Prime Contracts</u>	<u>Obligations</u>
FY 1988 ¹	421,000	410,000	\$320 Billion
FY 1989 ¹	429,000	417,000	\$324 Billion
FY 1990 ²	500,000	485,000	\$750 Billion
FY 1991 ²	500,000	485,000	\$750 Billion

DLA estimated the following personnel and funding resources required to perform contract administration services:

	<u>Number of Personnel</u>	<u>Salaries</u>
FY 1988	18,202	\$610.1 Million
FY 1989	18,288	\$635.0 Million
FY 1990 ³	21,449	\$700.6 Million
FY 1991 ⁴	20,205	\$623.8 Million

¹ Prior to consolidation.

² After consolidation.

³ Former Service Plant Representative Offices were consolidated into DLA in June 1990.

⁴ Costs are actual through June 1991.

APPENDIX J: POINTS OF CONTACT FOR REPORTS

<u>AGENCY</u>	<u>POINT OF CONTACT</u>	<u>PHONE NUMBER</u>
ARMY	Robert Kurzer Army Materiel Command AMCIR-A 5001 Eisenhower Avenue Alexandria, VA 22333	(703) 274-9023
ARMY	U.S. Army Engineering and Housing Support Center Building #358 Kingman Building Ft. Belvoir, VA 22060-5516	(703) 355-3545
AAA ¹	Headquarters, Army Audit Agency SAAG-PRP 3101 Park Center Drive Alexandria, VA 22302-1596	(703) 756-2875
NAVY	Naval Postgraduate School Documents: Defense Logistics Studies Information Exchange (DLSIE) U.S. Army Logistics Management College Fort Lee, VA 23801-6043	(804) 734-2240

See footnotes at end of appendix

<u>AGENCY</u>	<u>POINT OF CONTACT</u>	<u>PHONE NUMBER</u>
	Naval Postgraduate School Documents: Defense Technical Information Center (DTIC) Cameron Station Alexandria, VA 22304-6145 (Documents available to registered DTIC users only)	(703) 274-7633
NAS ²	Wayne Rosewell Naval Audit Service 5611 Columbia Pike Falls Church, VA 22041-5080	(703) 756-2125
AIR FORCE	Air University Documents: Defense Logistics Studies Information Exchange U.S. Army Logistics Management College Fort Lee, VA 23801-6043	(804) 734-2240
	or	
	Defense Technical Information Center (DTIC) Cameron Station Alexandria, VA 22304-6145 (Documents available to registered DTIC users only)	(703) 274-7633
AIR FORCE	LTC Ashby Air Force Logistics Management Center XPP Gunter AFB, AL 36114-6693	(205) 693-3150

See footnotes at end of appendix

<u>AGENCY</u>	<u>POINT OF CONTACT</u>	<u>PHONE NUMBER</u>
AFAA ³	Ron Lonon Air Force Audit Agency Associate Auditor General (SAF/AGA) Pentagon Room 5E977 Washington, DC 20330-6500	(703) 697-6281
DLA ⁴	Paul Grover Defense General Supply Center DLA-DORO Richmond, VA 23297-5000	(804) 275-4210
IG, DoD ⁵	Richard Berger Inspector General, DoD Assistant Inspector General for Auditing 400 Army Navy Drive Arlington, VA 22202	(703) 614-6303
IG, DoD ⁵	John R. Crane Inspector General, DoD Office of Congressional Liaison 400 Army Navy Drive Arlington, VA 22202	(703) 614-0491
IG, DoD ⁵	LTC Robert Meek Inspector General, DoD Assistant Inspector General for Inspections 400 Army Navy Drive Arlington, Va 22202	(703) 693-0052

See footnotes at end of appendix

<u>AGENCY</u>	<u>POINT OF CONTACT</u>	<u>PHONE NUMBER</u>
IG, DoD ⁵	Nancy Jo Roberson Inspector General, DoD Assistant Inspector General for Audit Policy and Oversight 400 Army Navy Drive Arlington, VA 22202	(703) 693-0002
GAO ⁶	U.S. General Accounting Office 700 4th St. NW, Room 1000 Washington, DC 20548	(202) 275-1604

¹ AAA - Army Audit Agency

² NAS - Naval Audit Service

³ AFSA-Air Force Audit Agency

⁴ DLA - Defense Logistics Agency

⁵ IG,DoD - Inspector General, DoD

⁶ GAO - General Accounting Office

APPENDIX K: ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Director of Defense Procurement, Washington, DC

Department of the Army

Assistant Secretary of the Army (Research, Development and
Acquisition), Washington, DC
Headquarters, Army Audit Agency, Alexandria, VA
U.S. Army Contracting Support Agency, Falls Church, VA

Department of the Navy

Office of the Assistant Secretary of the Navy (Research,
Development and Acquisition), Arlington, VA
Headquarters, Naval Facilities Engineering Command, Alexandria,
VA
Headquarters, Naval Sea Systems Command, Arlington, VA
Headquarters, Naval Supply Systems Command, Washington, DC
Headquarters, Naval Audit Service, Falls Church, VA

Department of the Air Force

Secretary of the Air Force for Acquisition (Operational Contracting Division), Washington, DC

Secretary of the Air Force (Pricing and Contracting Administration Division), Washington, DC

Headquarters, Air Force Audit Agency, Morton Air Force Base, CA
Wright-Patterson Air Force Base Contracting Division,
Wright-Patterson Air Force Base, OH

Defense Agencies

Defense Finance and Accounting Service, Arlington, VA

Defense Logistics Agency, Alexandria, VA

Defense Logistics Studies Information Exchange, Fort Lee, VA

Defense Technical Information Center, Alexandria, VA

Non-DoD

General Accounting Office, Washington, DC

APPENDIX L: REPORT DISTRIBUTION

Office of the Secretary of Defense

Under Secretary of Defense for Acquisition
Assistant Secretary of Defense (Production and Logistics)
Director of Defense Procurement
Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Assistant Secretary of the Army (Research, Development and
Acquisition)
Auditor General, U.S. Army Audit Agency
Inspector General, Department of the Army

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Assistant Secretary of the Navy (Research, Development and
Acquisition)
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Acquisition)
Assistant Secretary of the Air Force (Financial Management and
Comptroller)
Auditor General, U.S. Air Force Audit Agency

Other Defense Agencies

Director, Defense Contract Audit Agency
Director, Defense Logistics Agency

Non-DoD

Office of Management and Budget

U.S. General Accounting Office, NSIAD Technical Information
Center

Congressional Committees:

Senate Subcommittee on Defense, Committee on Appropriations
Ranking Minority Member, Senate Subcommittee on Defense,
Committee on Appropriations
Senate Committee on Armed Services
Ranking Minority Member, Senate Committee on Armed Services
Senate Committee on Governmental Affairs
Ranking Minority Member, Senate Committee on Governmental
Affairs
House Committee on Appropriations
Ranking Minority Member, House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
Ranking Minority Member, House Subcommittee on Defense,
Committee on Appropriations
House Committee on Armed Services
Ranking Minority Member, House Committee on Armed Services
House Committee on Government Operations

Ranking Minority Member, House Committee on Government
Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations
Ranking Minority Member, House Subcommittee on Legislation and
National Security, Committee on Government Operations

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